

Lead Hill School District No. 4

Boone County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2010

LEGISLATIVE JOINT AUDITING COMMITTEE



LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2010

Independent Auditor's Report
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*
Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133
Management Letter

REGULATORY BASIS FINANCIAL STATEMENTS

Exhibit

Balance Sheet - Regulatory Basis	A
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Regulatory Basis	B
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds - Regulatory Basis	C
Notes to Financial Statements	

SUPPLEMENTARY INFORMATION

Schedule

Schedule of Capital Assets (Unaudited)	1
Schedule of Expenditures of Federal Awards	2
Schedule of Findings and Questioned Costs	3
Federal Award Programs - Summary Schedule of Prior Audit Findings	4
Schedule of Selected Information for the Last Five Years - Regulatory Basis (Unaudited)	5

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Arkansas



Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Lead Hill School District No. 4 and School Board Members
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Lead Hill School District No. 4 (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, the District has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2010, or the changes in financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1), Schedule of Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Schedule of Findings and Questioned Costs (Schedule 3), Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4), and Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Schedule of Expenditures of Federal Awards (Schedule 2), Schedule of Findings and Questioned Costs (Schedule 3), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) and the Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with the first name "Roger" being more prominent.

Roger A. Norman, JD, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
February 7, 2011
EDSD02810

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
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House Vice Chair

Arkansas



Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Lead Hill School District No. 4 and School Board Members
Legislative Joint Auditing Committee

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Lead Hill School District No. 4 (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated February 7, 2011. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1 to be a material weakness.

Compliance and Other Matters

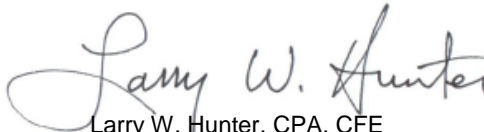
As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated February 7, 2011.

The District's responses to the findings identified in our audit, excluding the management letter findings, are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in dark ink, reading "Larry W. Hunter". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 7, 2011

Sen. Bill Pritchard
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Senate Vice Chair
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Arkansas



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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Lead Hill School District No. 4 and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the Lead Hill School District No. 4's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

As described in items 2010-3, 2010-4, 2010-5, and 2010-6 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding the Davis-Bacon Act and procurement and suspension and debarment for the State Fiscal Stabilization Fund Cluster, allowable costs/cost principles for the ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act program, and special tests and provisions that are applicable to its ARRA - Title I Grants to Local Educational Agencies, Recovery Act program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2010-2.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

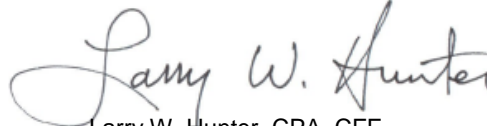
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-3, 2010-4, 2010-5, and 2010-6 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2010-2 to be a significant deficiency.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in dark ink, reading "Larry W. Hunter". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 7, 2011

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LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Lead Hill School District No. 4 and School Board Members
Legislative Joint Auditing Committee

We would like to communicate the following items that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations and to improve internal control. These matters were discussed previously with District officials during the course of our audit fieldwork and at the exit conference.

1. During our examination of payroll records for fifteen employees, we noted the following:
 - a. Education level was not included or incorrect on the contracts of three employees.
 - b. The experience level was incorrect on the contracts of three employees.
 - c. Five classified employees' actual pay did not agree with the salary schedule.
 - d. Four certified employees' actual pay did not agree with the salary schedule.
2. The District's calculation of 40% pullback for the deferral of taxes was overstated by \$59,774 at June 30, 2010. The financial statements were corrected during audit fieldwork.

This letter is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

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Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 7, 2011

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2010

Exhibit A

	Governmental Funds		
	Major		
	General	Special Revenue	Fiduciary Fund Types
ASSETS			
Cash	\$ 879,166	\$ 73,074	\$ 53,062
Accounts receivable	115,365	22,681	
TOTAL ASSETS	<u>\$ 994,531</u>	<u>\$ 95,755</u>	<u>\$ 53,062</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 19,556	\$ 1,748	\$ 401
Due student groups			47,341
Deferred taxes	38,626		
Total Liabilities	<u>58,182</u>	<u>1,748</u>	<u>47,742</u>
Fund Balances:			
Reserved:			
Scholarships			5,320
Unreserved:			
Undesignated	936,349	94,007	
Total Fund Balances	<u>936,349</u>	<u>94,007</u>	<u>5,320</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 994,531</u>	<u>\$ 95,755</u>	<u>\$ 53,062</u>

The accompanying notes are an integral part of these financial statements.

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

Exhibit B

	Major		Other
	General	Special Revenue	Aggregate
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,131,496		
State assistance	2,185,449	\$ 1,658	
Federal assistance	4,049	721,380	
Activity revenues	20,684		
Meal sales		27,148	
Investment income	15,077		
Other revenues	45,719	10,699	
TOTAL REVENUES	3,402,474	760,885	
EXPENDITURES			
Regular programs	1,361,478	67,285	
Special education	193,574	83,129	
Workforce education	81,006		
Compensatory education	13,237	102,884	
Other instructional programs	143,861		
Student support services	109,086	7,811	
Instructional staff support services	83,932	94,159	
General administration support services	275,901	5,613	
School administration support services	144,803		
Central services support services	62,582		
Operation and maintenance of plant services	348,304	32,850	
Student transportation services	120,482	65,818	
Other support services	498		
Food services operations		220,573	
Community services operations		13	
Facilities acquisition and construction services		69,550	\$ 18,982
Activity expenditures	31,312		
Debt Service:			
Principal retirement	34,615		90,000
Interest and fiscal charges	6,411		75,759
TOTAL EXPENDITURES	3,011,082	749,685	184,741
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	391,392	11,200	(184,741)
OTHER FINANCING SOURCES (USES)			
Transfers in			184,741
Transfers out	(184,741)		
TOTAL OTHER FINANCING SOURCES (USES)	(184,741)		184,741
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	206,651	11,200	
FUND BALANCES - JULY 1	729,698	82,807	
FUND BALANCES - JUNE 30	\$ 936,349	\$ 94,007	\$ 0

The accompanying notes are an integral part of these financial statements.

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,121,000	\$ 1,131,496	\$ 10,496			
State assistance	2,031,221	2,185,449	154,228	\$ 1,800	\$ 1,658	\$ (142)
Federal assistance		4,049	4,049	967,924	721,380	(246,544)
Activity revenues		20,684	20,684			
Meal sales					27,148	27,148
Investment income	20,000	15,077	(4,923)			
Other revenues	80,500	45,719	(34,781)	36,200	10,699	(25,501)
TOTAL REVENUES	3,252,721	3,402,474	149,753	1,005,924	760,885	(245,039)
EXPENDITURES						
Regular programs	1,481,696	1,361,478	120,218	74,519	67,285	7,234
Special education	218,982	193,574	25,408	97,019	83,129	13,890
Workforce education	114,290	81,006	33,284			
Compensatory education	17,015	13,237	3,778	104,509	102,884	1,625
Other instructional programs	130,972	143,861	(12,889)			
Student support services	93,314	109,086	(15,772)	55,398	7,811	47,587
Instructional staff support services	68,188	83,932	(15,744)	134,723	94,159	40,564
General administration support services	203,080	275,901	(72,821)	5,103	5,613	(510)
School administration support services	126,441	144,803	(18,362)			
Central services support services	44,008	62,582	(18,574)			
Operation and maintenance of plant services	487,616	348,304	139,312	307,050	32,850	274,200
Student transportation services	223,509	120,482	103,027	65,000	65,818	(818)
Other support services	498	498				
Food services operations				210,014	220,573	(10,559)
Community services operations				250	13	237
Facilities acquisition and construction services					69,550	(69,550)
Activity expenditures		31,312	(31,312)			
Debt Service:						
Principal retirement	53,384	34,615	18,769			
Interest and fiscal charges	6,426	6,411	15			
TOTAL EXPENDITURES	3,269,419	3,011,082	258,337	1,053,585	749,685	303,900

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (16,698)	\$ 391,392	\$ 408,090	\$ (47,661)	\$ 11,200	\$ 58,861
OTHER FINANCING SOURCES (USES)						
Transfers in	1,500,779		(1,500,779)			
Transfers out	(1,688,484)	(184,741)	1,503,743			
TOTAL OTHER FINANCING SOURCES (USES)	(187,705)	(184,741)	2,964			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(204,403)	206,651	411,054	(47,661)	11,200	58,861
FUND BALANCES - JULY 1	877,880	729,698	(148,182)	86,309	82,807	(3,502)
FUND BALANCES - JUNE 30	\$ 673,477	\$ 936,349	\$ 262,872	\$ 38,648	\$ 94,007	\$ 55,359

The accompanying notes are an integral part of these financial statements.

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a five member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Lead Hill School District (District). There are no component units.

B. Description of Funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

General Fund – The General Fund is the general operating fund and is used to account for all financial resources, except those required to be reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Other governmental funds, presented in the aggregate, consist of the following:

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Fiduciary Fund types include the following:

Agency Funds – Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

Private-purpose Trust Funds – Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

C. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Ark. Code Ann. § 10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds, and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA, except for property taxes (see Note 1 F below).

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year. Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes 40% of the proceeds of local taxes which are not pledged to secure bonded indebtedness or 40% of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

- If the amount of 40% pullback collected by June 30th is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30th is more than the calculated 40% pullback amount, the excess must be recorded as deferred taxes.

Amendment no. 74 to the Arkansas Constitution established a uniform minimum property tax millage rate of 25 mills for maintenance and operation of public schools. Ark. Code Ann. § 26-80-101 provides the uniform rate of tax (URT) shall be assessed and collected in the same manner as other school property taxes, but the net revenues from the URT shall be remitted to the State Treasurer and distributed by the State to the county treasurer of each county for distribution to the school districts in that county. For reporting purposes, URT revenues are considered property taxes.

G. Fund Balance Designations

1. Reserved fund balance – represents that portion of the fund balance which is not appropriable for expenditure or is legally segregated for a specific future use.
2. Undesignated fund balance – indicates that portion of the fund balance not reserved or designated.

H. Budget and Budgetary Accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis.

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	755,302	898,302
Total Deposits	<u>\$ 1,005,302</u>	<u>\$ 1,148,302</u>

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$138,046 at June 30, 2010 was comprised of the following:

Description	Governmental Funds		Total
	Major	Special Revenue	
	General		
State assistance	\$ 115,365		\$ 115,365
Federal assistance		\$ 22,681	22,681
Totals	<u>\$ 115,365</u>	<u>\$ 22,681</u>	<u>\$ 138,046</u>

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2010:

- A. Operating Leases (noncapital leases with initial noncancellable lease terms in excess of one year)

General description of leases and leasing arrangements:

The District executed two noncancellable lease agreements for seven buses with Central States Bus Sales in July 2008. The terms of the lease agreements are three annual rental payments of \$81,445.

1. Future minimum rental payments (aggregate) at June 30, 2010: \$81,445
2. Future minimum rental payments for the succeeding year:

Year Ended June 30,	Amount
2011	<u>\$ 81,445</u>

Rental payments for the operating leases described above were approximately \$81,445 for the year ended June 30, 2010.

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

4: COMMITMENTS (Continued)

B. Long-term Debt Issued and Outstanding

The District is presently paying on the following long-term debt:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2010	Maturities To June 30, 2010
6/1/05	2/1/25	2.75 - 3.9%	\$ 2,400,000	\$ 2,025,000	\$ 375,000
7/9/08	7/9/11	5.75%	23,500	16,100	7,400
11/17/06	11/1/11	4.95%	90,000	36,000	54,000
3/30/09	3/30/14	4.25%	51,429	42,214	9,215
Totals			<u>\$ 2,564,929</u>	<u>\$ 2,119,314</u>	<u>\$ 445,615</u>

Changes in Long-term Debt

	Balance July 1, 2009	Issued	Retired	Balance June 30, 2010
Bonds payable	\$ 2,115,000		\$ 90,000	\$ 2,025,000
Certificates of indebtedness	54,000		18,000	36,000
Capital leases	51,429		9,215	42,214
Bank note	23,500		7,400	16,100
Totals	<u>\$ 2,243,929</u>	<u>\$ 0</u>	<u>\$ 124,615</u>	<u>\$ 2,119,314</u>

Total long-term debt principal and interest payments are as follows:

Year Ended June 30,	Principal	Interest	Total
2011	\$ 125,547	\$ 77,003	\$ 202,550
2012	146,531	72,337	218,868
2013	125,820	67,383	193,203
2014	126,416	63,108	189,524
2015	125,000	58,743	183,743
2016-2020	670,000	227,075	897,075
2021-2025	800,000	95,962	895,962
Totals	<u>\$ 2,119,314</u>	<u>\$ 661,611</u>	<u>\$ 2,780,925</u>

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

4: COMMITMENTS (Continued)

B. Long-term Debt Issued and Outstanding (Continued)

Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2010
Softball field lights	\$ 51,429
	June 30, 2010
Total Minimum Lease Payments	\$ 48,174
Less: Amount Representing Interest	5,960
Total Present Value of Net Minimum Lease Payments	\$ 42,214

5: ACCOUNTS PAYABLE

The accounts payable balance of \$21,705 at June 30, 2010 was comprised of the following:

Description	Governmental Funds			Total
	Major		Other Aggregate	
	General	Special Revenue		
Vendor payables	\$ 19,556	\$ 1,748	\$ 401	\$ 21,705

6: INTERFUND TRANSFERS

The District transferred \$184,741 from the general fund to the other aggregate funds for debt related payments of \$165,759 and capital expenditures of \$18,982.

7: RETIREMENT PLANS

Arkansas Teacher Retirement System

Plan Description. The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired before July 1, 1989. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

7: RETIREMENT PLANS (Continued)

Arkansas Teacher Retirement System (Continued)

Funding Policy. ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2010, 2009, and 2008 were \$289,183, \$261,117, and \$224,878, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

Plan Description. The District contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteachers hired before July 1, 1989. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy. APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute 5% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for school districts is 4% of covered salaries. The District's contributions to APERS for the years ended June 30, 2010, 2009, and 2008 were \$1,476, \$2,486, and \$2,505, respectively, equal to the required contributions for each year.

8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 2,250
DEDUCTIONS	
Scholarships	<u>250</u>
CHANGE IN FUND BALANCE	2,000
FUND BALANCE - JULY 1	<u>3,320</u>
FUND BALANCE - JUNE 30	<u><u>\$ 5,320</u></u>

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

9: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for board liability and student accidents. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

The District participates in the Arkansas School Boards Association – Workers' Compensation Trust (the Trust), a self-insurance trust voluntarily established on July 1, 1994 pursuant to state law. The Trust is responsible for obtaining and administering workers' compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating, and settling claims that have been filed on behalf of and against member districts. The District contributes annually to this program.

The District participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$1,000 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

The District participates in the Public School Property and Vehicle Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program's general objectives are to formulate, develop, and administer, on behalf of member districts, a program of insurance to obtain lower costs for property and vehicles coverage, and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The District pays an annual premium for its coverage of buildings, contents, and vehicles.

10: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$38,303 for the year ended June 30, 2010.

11: SUBSEQUENT EVENTS

On August 12, 2010, the District executed a lease agreement with Blue Bird Bus Company to lease seven buses. The terms of the lease include three annual payments of \$85,540.

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
(Unaudited)

Schedule 1

	Balance June 30, 2010
<i>Nondepreciable capital assets:</i>	
Land	\$ 84,663
<i>Depreciable capital assets:</i>	
Buildings	3,164,903
Improvements/infrastructure	205,767
Equipment	398,719
Total depreciable capital assets	3,769,389
Less accumulated depreciation for:	
Buildings	1,368,276
Improvements/infrastructure	75,767
Equipment	271,753
Total accumulated depreciation	1,715,796
Total depreciable capital assets, net	2,053,593
Capital assets, net	\$ 2,138,256

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Direct Program:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 2)	10.555		\$ 439
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	05-06	44,072
National School Lunch Program - Cash Assistance	10.555	05-06	124,801
Total State Department of Education			168,873
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	0504	7,189
TOTAL CHILD NUTRITION CLUSTER			176,501
TITLE I, PART A CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	05-06	114,689
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	0506000	51,617
TOTAL TITLE I, PART A CLUSTER			166,306
SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	05-06	93,943
ARRA - Special Education - Grants to States, Recovery Act	84.391	0506000	75,403
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			169,346
STATE FISCAL STABILIZATION FUND CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	0506000	111,748
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	0506000	4,790
TOTAL STATE FISCAL STABILIZATION FUND CLUSTER			116,538

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
OTHER PROGRAMS			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Human Services:			
Child and Adult Care Food Program	10.558	05-06	\$ 1,717
Passed Through State Department of Education:			
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	0506000	2,735
Total U. S. Department of Agriculture			<u>4,452</u>
<u>U. S. Department of Education</u>			
Direct Program:			
Rural Education	84.358		<u>52,296</u>
Passed Through State Department of Education:			
Safe and Drug-Free Schools and Communities -			
State Grants	84.186	05-06	1,465
Improving Teacher Quality State Grants	84.367	05-06	8,324
Hurricane Education Recovery	84.938	05-06	7,290
Total State Department of Education			<u>17,079</u>
Total U. S. Department of Education			<u>69,375</u>
 TOTAL OTHER PROGRAMS			 <u>73,827</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 <u>\$ 702,518</u>

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lead Hill School District No. 4 and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the regulatory basis financial statements.
- Note 2: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.

Schedule 3

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2010-1. Internal Control

Criteria or specific requirement: Internal control is a process consisting of five interrelated components - *control environment, risk assessment, information and communication, control activities, and monitoring*. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions in the financial statements.

Condition: A deficiency in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. The District has not segregated financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting.

Context: An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures was obtained.

Effect: The District's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard District assets, was adversely affected by the identified weakness in the above internal control component.

Cause: District management, due to cost/benefit implications, which hindered the District's ability to adequately segregate financial accounting duties among employees, did not affectively address the deficiency in internal control.

Recommendation: District management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets.

Views of responsible officials and planned corrective actions: We concur with the recommendation.

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - CFDA NUMBER 84.010
PASS-THROUGH NUMBER 05-06
AUDIT PERIOD - YEAR ENDED JUNE 30, 2010

2010-2. Allowable Costs/Cost Principles

Criteria or specific requirement: Office of Management and Budget (OMB) Circular A-87 requires periodic time certifications for employees who work solely on a single federal program.

Condition: Although standard payroll documentation supporting the employee's work in the Title I program was available for audit inspection, periodic time certifications were not prepared for an employee who worked solely with the program.

Context: Examination of documentation substantiating time worked by employees.

Effect: The District was unable to provide required documentation substantiating the time charged to the Title I program.

Cause: The District was unaware of the OMB Circular A-87 requirement pertaining to periodic time certifications.

Recommendation: The District should prepare periodic time certifications for all applicable employees.

Views of responsible officials and planned corrective actions: Certification sheets were done for classified but I was not aware that they needed to be done for the certified staff. This has been done and will be done from now on.

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

MATERIAL WEAKNESSES

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
STATE FISCAL STABILIZATION FUND CLUSTER - CFDA NUMBERS 84.394 and 84.397
PASS-THROUGH NUMBER 0506000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2010

2010-3. Davis-Bacon Act

Criteria or specific requirement: The Davis-Bacon Act requires all contractors and subcontractors performing on construction contracts in excess of \$2,000, financed by Federal funds, to pay their laborers and mechanics not less than the prevailing wage rates as determined by the Department of Labor. Non-federal entities are to include, in the applicable construction contracts, a requirement that the contractor or subcontractor comply with the provisions of the Davis-Bacon Act and the Department of Labor regulations. Such requirements included the submission of weekly certified payrolls, for each week in which any contract work is performed, to the non-federal entities.

Condition: The District did not notify the contractors for four contracts of the requirement to comply with the Davis-Bacon Act and did not obtain copies of certified payrolls. The contracts were as follows: a contract of \$8,650 for the replacement of heating and cooling systems, a contract of \$13,500 for the installation of a fire alarm system, a contract for \$5,230 for concrete construction work, and a contract of \$11,869 for the installation of a wireless network.

Context: Examination of payments made to contractors and supporting documentation.

Effect: The District did not comply with the notification requirements regarding compliance with the Davis-Bacon Act and was unable to provide copies of weekly certified payrolls or workers paid on the projects.

Cause: The District was unaware the Davis-Bacon Act applied to these projects.

Recommendation: The District should ensure that all applicable construction contracts contain the required notification regarding compliance with the Davis-Bacon Act. Copies of weekly certified payrolls should be obtained for the applicable projects. The District should also contact the Arkansas Department of Education for further directives regarding this matter.

Views of responsible officials and planned corrective actions: Our understanding was that the limit was \$10,000 and we have contacted all of our vendors to get the necessary information to correct this oversight.

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

MATERIAL WEAKNESSES (Continued)

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
STATE FISCAL STABILIZATION FUND CLUSTER - CFDA NUMBERS 84.394 and 84.397
PASS-THROUGH NUMBER 0506000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2010 (Continued)

2010-4. Procurement and Suspension and Debarment

Criteria or specific requirement: The American Recovery and Reinvestment Act (ARRA) of 2009 prohibits the use of ARRA funds for a project for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. The construction contracts for all applicable projects, financed by ARRA funds, are to contain a Buy-American clause.

Condition: A contract of \$8,650 for the replacement of heating and cooling systems, previously identified in finding 2010-3, and a contract of \$11,111 for the purchase of a metal building, did not contain the Buy-American clause.

Context: Examination of payments made to contractors and supporting documentation.

Effect: The District's contracts did not contain the required Buy-American clause.

Cause: The District was unaware the Buy-American provisions applied to these projects.

Recommendation: The District should ensure that all applicable construction contracts contain the Buy-American clause. The District should also contact the Arkansas Department of Education for further directives regarding this matter.

Views of responsible officials and planned corrective actions: We will check the Buy-American provision is met with all future projects.

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

MATERIAL WEAKNESS

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT - CFDA
NUMBER 84.394
PASS-THROUGH NUMBER 0506000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2010

2010-5. Allowable Costs/Cost Principles

Criteria or specific requirement: The American Recovery and Reinvestment Act (ARRA) of 2009 prohibits the use of ARRA funds for expenditures that are not an allowable cost per the District's approved ARRA plan.

Condition: The District paid employees \$40 a day for unused sick leave during the year. The incentive program was not an approved expenditure in the District's ARRA plan.

Questioned Costs: Payments totaling \$7,560 were paid to employees for the incentive program.

Context: Examination of payments made to employees and supporting documents.

Effect: The related expenditures were not an allowable cost per the District's ARRA plan.

Cause: The District was unaware that the payments made for the incentive program were not included in the District's ARRA plan.

Recommendation: The District should ensure that all ARRA expenditures are an allowable cost per the District's ARRA plan and contact the Arkansas Department of Education for further guidance regarding this matter.

Views of responsible officials and planned corrective actions: It was my understanding that this was supposed to be in the plan because it was something that the former Superintendent had started. We will revise the plan to include.

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

MATERIAL WEAKNESS

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
ARRA - TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT - CFDA NUMBER 84.389
PASS-THROUGH NUMBER 0506000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2010

2010-6. Special Tests and Provisions

Criteria or specific requirement: The American Recovery and Reinvestment Act (ARRA) of 2009 requires Title I ARRA funds to be used for certain programs and activities. Transfers from the Title I ARRA program to other ARRA programs are not allowable.

Condition: The District transferred \$10,000 from Title I ARRA funds to another ARRA program (State Fiscal Stabilization Fund).

Questioned Costs: Transfers of \$10,000 to another ARRA program.

Context: Examination of transfers and supporting documents.

Effect: Transfers from the Title I ARRA program to another ARRA program are not allowable.

Cause: An error was made in an adjusting journal entry that resulted in the funds being transferred.

Recommendation: The District should ensure that all Title I ARRA funds are used exclusively for approved programs and activities. Additionally, the District should contact the Arkansas Department of Education for further guidance regarding this matter.

Views of responsible officials and planned corrective actions: We made the transfer to cover a negative balance and were not aware that there was a problem.

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 4

There were no findings in the prior audit.

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2010
(Unaudited)

Schedule 5

<u>General Fund</u>	Year Ended June 30,				
	2010	2009	2008	2007	2006
Total Assets	\$ 994,531	\$ 838,427	\$ 696,337	\$ 436,688	\$ 265,966
Total Liabilities	58,182	108,729	54,977	26,363	8,860
Total Fund Balances	936,349	729,698	641,360	410,325	257,106
Total Revenues	3,402,474	3,323,901	3,033,451	3,213,341	2,961,852
Total Expenditures	3,011,082	3,079,570	2,641,978	2,987,484	2,957,738
Total Other Financing Sources (Uses)	(184,741)	(155,993)	(160,438)	(72,638)	27,838
 <u>Special Revenue Fund</u>					
Total Assets	95,755	86,317	53,050	50,515	32,737
Total Liabilities	1,748	3,510	277		
Total Fund Balances	94,007	82,807	52,773	50,515	32,737
Total Revenues	760,885	459,498	398,798	455,683	496,149
Total Expenditures	749,685	429,464	396,540	437,905	482,323
Total Other Financing Sources (Uses)					(19,710)
 <u>Other Aggregate Funds</u>					
Total Assets		2,428			
Total Liabilities		2,428			
Total Fund Balances					
Total Revenues					
Total Expenditures	184,741	230,922	160,438	162,638	95,651
Total Other Financing Sources (Uses)	184,741	230,922	160,438	162,638	95,651